

FANLING LUTHERAN SECONDARY SCHOOL
2016 - 2017 S6 MOCK EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Date: 8th February, 2017

Time allowed: 8:30 am - 9:45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS:

- (1) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
 - (2) Answer ALL questions in Section A. There are two parts in Section B. Answer ALL questions in Part 1 and ONE of the two questions in Part 2.
 - (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start EACH question (not part of a question) on a NEW page.
 - (4) The Answer Sheet for **Section A** and the Answer Book for **Section B** must be handed in separately at the end of the examination.
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INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
- (3) All questions carry equal marks.
- (4) **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the answer sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
- (6) No marks will be deducted for wrong answers.

SECTION A (60 marks) Multiple-choice Questions

There are 30 questions in this section. Answer ALL questions. Choose the **best** answer for each question.

1. Which of the following descriptions regarding economic sectors in Hong Kong is correct?
 - A. No people are engaged in the primary industry.
 - B. Hong Kong economy relies heavily on tertiary industry in terms of GDP and employment share.
 - C. In recent years, Hong Kong has had more people working in the secondary industry than in the tertiary industry.
 - D. As an international financial centre, Hong Kong has a high percentage of population working in the finance sector.

2. Noah has deposited \$4,500 in his bank account, which offers an annual interest rate of 5%, compounded annually. How much compound interest can he earn in three years?
 - A. \$450
 - B. \$461
 - C. \$675
 - D. \$709

3. Which of the following is a benefit of CEPA for businesses in Hong Kong?
 - A. Hong Kong firms which set up production line in the Mainland are not taxed in the Mainland.
 - B. Hong Kong firms can enjoy free movement of capital across borders.
 - C. Tariffs are not levied on goods originating in Hong Kong that are exported to the Mainland.
 - D. Hong Kong firms can increase the number of products exported to the Mainland.

4. Which of the following statements concerning risks and returns is correct?
 - A. Returns must be positive.
 - B. All risks can be diversified.
 - C. Risks and returns are generally negatively related.
 - D. Investors cannot earn a return without taking any risks.

5. Which of the following accounting equations is correct?
 - A. Capital = Assets – Liabilities
 - B. Capital = Assets + Liabilities
 - C. Capital = Liabilities – Assets
 - D. None of the above

6. In a partnership, owners bear _____ liability and all partners _____ legally bound by the decisions made in the name of the firm.
 - A. limited; are not
 - B. limited; are
 - C. unlimited; are
 - D. unlimited; are not

- 7 Which of the following is not a characteristic of a franchise?
- (1) Franchisees can operate their business independently.
 - (2) Franchisees are employed by the franchisor to run their business.
 - (3) Franchisees can enjoy the benefits of a large shop.
 - (4) Franchisees can set up their businesses with ease with the support of the franchisor.
- A. (1) and (2) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (3) and (4) only
- 8 If the Hang Seng Index (HSI) dropped 10% yesterday, which of the following statements is most likely to be true?
- A. The prices of most HSI constituents decreased yesterday.
- B. The value of the Hong Kong Dollar dropped 10% yesterday.
- C. All investors in the stock market suffered a loss yesterday.
- D. HSI will increase today.
- 9 The current ratio and quick ratio of Silver Co are both 2 : 1. Which of the following statements is/are correct?
- A. The business appears to have sufficient liquidity.
- B. The business has no inventory.
- C. The business has net current assets.
- D. All of the above statements are correct.
- 10 Raymond Chan paid the electricity bill for his business with his own money. The double entry for this transaction would be:
- A. Dr Electricity; Cr Capital
- B. Dr Capital; Cr Electricity
- C. Dr Electricity; Cr Bank
- D. According to the business entity concept, this transaction should not be recorded in the books of the business.
- 11 Which of the following accounts would appear on the debit side of a trial balance?
- (1) Capital
 - (2) Drawings
 - (3) Mary Wong, a trade debtor
- A. (1) only
- B. (2) only
- C. (2) and (3) only
- D. (1), (2) and (3)

- 12 Louisa Ko is a part-time worker at a flower shop. She has worked for six months and her monthly salary is \$6,500. Which of the following statements about her Mandatory Provident Fund (MPF) scheme is correct?
- (1) She does not need to make monthly contributions to her MPF scheme.
 - (2) If her monthly salary increases by \$1,000, her employer does not need to make monthly contributions to her MPF scheme.
 - (3) She can make voluntary contributions to her MPF scheme.
- A. (3) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
- 13 Which of the following is an example of a business being socially responsible?
- (1) Organising a company picnic
 - (2) Conducting product safety testing
 - (3) Visiting the elderly in an elderly house
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
- 14 Given the following figures on Maxi & Co for the year ended 31 March 2016: sales \$1,000,000; returns inwards \$20,000; cost of goods sold \$450,000; rent and rates \$120,000; wages and salaries \$130,000; carriage outwards \$20,000; and carriage inwards \$15,000. Net profit for the year amounted to
- A. \$245,000.
 - B. \$260,000.
 - C. \$280,000.
 - D. \$980,000.
- Net sales = \$1,000,000 – \$20,000 = \$980,000
 Gross profit = \$980,000 – \$450,000 = \$530,000
 Net profit = \$530,000 – \$120,000 – \$130,000 – \$20,000 = \$260,000
- 15 The most effective leader is one who
- A. makes managerial decisions without consulting others.
 - B. works with top managers and employees to make decisions.
 - C. has the leadership style most appropriate to the situation and the employee involved.
 - D. delegates authority to subordinates and supports them in performing their tasks.
- 16 Which of the following items would not be listed in a sole proprietorship's statement of financial position?
- (1) Gross profit for the year
 - (2) Net profit for the year
 - (3) Cash at bank
 - (4) Overdraft interest
- A. (1) only
 - B. (3) only
 - C. (1) and (4) only
 - D. (2), (3) and (4) only

- 17 Planning, organising, leading and controlling are the
- goals of management.
 - results of management.
 - functions of management.**
 - All of the above
- 18 Given the following figures on Amazing Co as at 31 December 2016, its year-end date: total assets \$1,500,000; total liabilities \$300,000; net profit for the year \$400,000; and drawings during the year \$100,000. Capital as at 1 January 2016 amounted to
- \$700,000.
 - \$900,000.**
 - \$1,200,000.
 - \$1,500,000.

$$\begin{aligned}\text{Closing capital} &= \$1,500,000 - \$300,000 = \$1,200,000 \\ \text{Closing capital} &= \text{Opening capital} + \text{Net profit} - \text{Drawings} \\ \$1,200,000 &= \text{Opening capital} + \$400,000 - \$100,000 \\ \text{Opening capital} &= \$900,000\end{aligned}$$

Refer to the following information to answer questions 19 and 20.

Given the following figures on Trident Co for the year ended 30 September 2016: sales \$2,000,000; returns inwards \$80,000; cost of goods sold \$800,000; discounts received \$40,000; and operating expenses \$500,000.

- 19 The gross profit ratio is

- 56%.
- 58.33%.**
- 60%.
- 60.42%.

$$\begin{aligned}\text{Net sales} &= \$2,000,000 - \$80,000 = \$1,920,000 \\ \text{Gross profit} &= \$1,920,000 - \$800,000 = \$1,120,000 \\ \text{Gross profit ratio} &= \$1,120,000 / \$1,920,000 = 58.33\%\end{aligned}$$

- 20 The net profit ratio is

- 33.33%.
- 34.38%.**
- 36.98%.
- 41.02%.

$$\begin{aligned}\text{Net profit} &= \$1,120,000 + \$40,000 - \$500,000 = \$660,000 \\ \text{Net profit ratio} &= \$660,000 / \$1,920,000 = 34.38\%\end{aligned}$$

- 21 Which of the following is an effective standard for a control system?

- Renting new premises of 1,500 square feet
- Deciding to hire 10 new employees next year
- Increasing the sales of product A by 10% next month**
- Replacing all of the old machines to improve product quality

- 22 Which of the following is not a characteristic of SMEs in Hong Kong?

- Dominant in the market
 - Independently owned and operated
 - Meeting certain standards in terms of labour size
- (1) only**
 - (2) only
 - (1) and (3) only

- D. (2) and (3) only
23. Which of the following is the characteristic of SMEs in Hong Kong?
- A. Most SMEs are partnerships.
 - B. Most SMEs hire professionals to compete against large businesses.
 - C. Most SMEs focus on narrow markets.
 - D. Most SMEs do not want to take risks to introduce new products.
24. Companies which have many brands often use the _____ structure to organise their marketing activities.
- A. functional
 - B. customer
 - C. geographical
 - D. product
25. The marketing department of a company is responsible for
- A. deciding the pay rises of salespeople.
 - B. deciding on the price of the product.
 - C. training salespeople to better serve customers.
 - D. collecting daily sales figures.
26. Mitchell Chan, the owner of Chan's Co, took goods costing \$5,000 from his business for personal use. Those goods had a selling price of \$10,000. Which of the following statements is true?
- A. Under the business entity concept, this transaction should not be recorded in the books of Chan's Co.
 - B. The drawings account should be debited by \$5,000.
 - C. The capital account should be debited by \$10,000.
 - D. Mitchell Chan has violated the business entity concept by taking goods from his business.
27. The nominal interest rate and effective interest rate of a bank account is X% and 3.84% per annum, respectively. Interest is compounded semi-annually. If the compounding frequency is increased to four times a year and the nominal interest rate is increased by 1%, what is the new effective interest rate?
- A. 4.8%
 - B. 4.89%
 - C. 4.93%
 - D. Cannot be determined because the value of X is unknown
28. A credit card user can
- (1) settle the credit card balance in irregular or lump-sum payments.
 - (2) be exempt from interest charges by paying the monthly minimum payment.
 - (3) make payments in all shops in Hong Kong with a credit card.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

- 29 According to the _____, a business should not use cash-basis accounting.
- A. going concern concept
 - B. consistency principle
 - C. historical cost principle
 - D. **accrual concept**
- 30 A beverage manufacturer has decided to set up a production plant in Shenzhen. Which of the following tasks are performed by its finance department?
- (1) Deciding the sources of finance for the investment
 - (2) Buying insurance to protect the plant against fires
 - (3) Evaluating this capital investment project and its returns
 - (4) Deciding the wages of employees in Shenzhen
- A. **(1) and (3) only**
 - B. (2) and (4) only
 - C. (1), (2) and (3) only
 - D. (2), (3) and (4) only

END OF SECTION A

SECTION B (30 marks) Short Questions**Part 1** (20 marks) Answer **ALL** questions in this part.

1. In order to revamp its brand, a fashion retailer hires a marketing specialist to coordinate the launch of its new products. Both the marketing specialist and the shop managers at the retail shops can give instructions to the salespeople. All of the salespeople are required to report to both the marketing specialist and the shop managers.

REQUIRED:

- (a) What principle of effective management has been violated in the above case
(b) Suggest two problems that might arise when the principle in (a) is violated.

(6 marks)

2. You are given the following figures for Alice Co as at 31 October 2016:

	\$
Furniture and fixtures	500,000
Bank overdraft	30,000
Trade receivables	60,000
Trade payables	45,000
Inventory, 31 October 2016	25,000
Bank loan, repayable on 1 January 2022	60,000
Cash	600
Bank loan, repayable on 30 June 2017	40,000
Capital, 31 October 2016	?

REQUIRED:

- (a) Prepare Alice Co's trial balance as at 31 October 2016.
(b) Calculate (to two decimal places) the acid test ratio as at 31 October 2016.

(7 marks)

3. Kevin Wong is a common stockholder of Deco Ltd, a department store listed in Hong Kong.

REQUIRED:

- (a) Explain two rights that Kevin Wong has as a common stockholder of Deco Ltd.
(b) Holding other factors constant, how would an increase in interest rates affect Deco Ltd's stock price? Explain.

(7 marks)

Part 2 (10 marks) Answer **ONE** question in this part.

4. Apollo & Co operates retail shops that sell a wide range of household items. The following figures were extracted from its books as at 31 March 2016, the financial year-end date:

	\$
Sales	5,000,000
Purchases	2,500,000
Inventory, 1 April 2015	228,000
Inventory, 31 March 2016	139,500
Wages and salaries	600,000
Rent and rates	240,000
Other operating expenses	8,500
Returns inwards	88,300

REQUIRED:

- (a) Prepare for Apollo & Co an income statement for the year ended 31 March 2016.
- (b) Lucas Sit, the chief executive officer of Apollo & Co, is thinking of expanding the business in the Mainland. A business consultant suggests that he should operate the business under a franchise arrangement. However, Lucas rejects the idea.
- What is a franchise? Give two reasons to explain why Lucas rejects operating the business under a franchise arrangement.

(10 marks)

5. Carol Ng runs a cleaning business as a sole proprietor. Her firm provides specialised cleaning services for businesses in Hong Kong. The firm has 10 employees.

You are given the following balances as at 30 June 2016:

	\$
Cleaning equipment	800,000
Motor vehicles	300,000
Trade receivables	20,000
Trade payables	30,000
Bank	50,000
Cash	70,000
Bank loan, repayable on 1 January 2017	30,000
Net profit for the year	320,000
Drawings	?
Capital, 1 July 2015	900,000

REQUIRED:

- (a) Prepare for Carol Ng's firm a vertical-style statement of financial position as at 30 June 2016.
- (b) Explain two ways in which Carol Ng's firm contributes to Hong Kong's economy.

(10 marks)

END OF PAPER